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NEW DELHI, INDIA—On the shambolic streets of New Delhi a new power is rising. India remains poor, but enjoys rapid economic growth rates and now possesses the world's fourth largest economy. If New Delhi politicians free their entrepreneurial people, India may join China as a coming superpower.



Image via Wikipedia

Globalization has been an extraordinary force for good. China and India are its greatest success stories.

After the death of Mao Zedong the Chinese government adopted far-reaching market-oriented reforms and is now booming economically. However, the so-called People's Republic of China is not yet free: The Communist Party resists political democratization and continues to interfere in economic matters. Indeed, China faces economic distortion, social instability, and political uncertainty.

There are tens of thousands of demonstrations every year, most directed

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against corrupt and incompetent local governments. Calls for a “jasmine revolution” modeled on the protests sweeping the Middle East caused the Chinese government to tighten Internet controls and deploy security forces. Moreover, Beijing’s increasingly assertive, even brusque, international behavior has antagonized neighboring states. There is widespread fear of possible confrontation and even conflict between the American superpower and the developing Chinese superpower.

India is the most important potential counterweight to China. A former British colony, India was birthed amid violence and chaos after World War II. India possesses the world’s second largest population after that of China, and is likely to overtake the PRC, which has disabled itself demographically with the “one child” policy.

New Delhi has another potentially significant advantage over China: democracy. Politics in India is always chaotic and sometimes violent. Nevertheless, the Indian people have an important social release—they can toss out their rulers. Armed resistance is not the only path to political change.

Finally, India has joined China on the economic reform road. Two decades ago the current prime minister, Manmohan Singh, presided over an economic U-turn as finance minister. Observed Indian journalist Niranjana Rajadhyaksha: “The dramatic liberalization of that year and further policy changes by governments in the late 1990s were a smashing success in some ways—India has a far more stable economy and is far more prosperous than before.”

This has helped reduce immiserating poverty. Notes Rajadhyaksha: “Average dollar incomes have more than tripled since 1991. Diets have improved and more proteins are being consumed. School enrollment has soared. Human development indicators increased more in the first decade of the current century than they did in the 1990s.”

However, much more remains to be done. Intervening governments have been less committed to reform. Even Prime Minister Singh, who labors in the shadow of Congress Party head Sonia Gandhi, has continued New Delhi’s debilitating populist policies.

Last week India extended subsidies on cooking and diesel fuel, and is expected to augment food subsidies. Other payments go for electricity, fertilizer, and jobs. Yet a recent government task force on subsidies pointed to “waste, leakage, adulteration and inefficiency.” By one estimate just 15 percent of this aid actually reaches the poor. Barun Mitra of New Delhi’s Liberty Institute warned that “this government is getting sucked deeper and deeper into welfare programs.”

The legal system is sclerotic. Corruption is pervasive. The regulatory process remains stultifying. Indeed, wrote Indian journalist Sadanand Dhume, “instead of using increased political elbow room to unshackle business, the government has moved in the opposite direction, allowing individual ministers wide leeway to make decisions in their personal fiefdoms regardless of their impact on the broader economy.”

Business rules remain uncertain. In recent cases involving environment, investment, royalties, takeovers, and taxes the government has changed the regulations midcourse. Warned the *Wall Street Journal*: “Such arbitrary interference erodes the rule of law and takes India backward toward the practices of the infamous License Raj. Then almost all economic activity was subject to the whims of rent-seeking politicians

ABOUT ME

Doug Bandow is a Senior Fellow at the Cato Institute. A former Special Assistant to President Ronald Reagan, he also is a Senior Fellow in International Religious Persecution with the Institute on Religion and Public Policy. He is the author and editor of numerous books, including *Foreign Follies: America's New Global Empire*, *The Politics of Plunder: Misgovernment in Washington*, and *Beyond Good Intentions: A Biblical View of Politics*. He is a graduate of Florida State University and Stanford Law School.
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and bureaucrats.” Last week Finance Minister Pranab Mukherjee announced that foreign investors will soon be allowed to purchase stock mutual funds managed by Indian companies, but Wall Street managers warn that the details will determine the plan’s success.

Labor laws are even worse. Deepak Lal, emeritus professor at UCLA, points out that these counterproductive policies prevent “India from generating the labor-intensive growth that has been the centerpiece of the Chinese economic miracle.” An astounding 93% of Indians still labor informally, with all of the problems that come from a lack of legal status.

According to the Economic Freedom of the World report, from 1980 to 2008 China rose from the 87th percentile to the 67th percentile, while India dropped from the 56th to the 67th. In the most recent rating (for 2008) India ranked no higher than 42 out of the 141 nations covered in eight major categories; it came in at 123 and 124 in business regulation and credit market regulation, respectively. New Delhi’s ratings actually have fallen marginally since 2005. Overall, India came in at number 87 (compared to the U.S. at number six).

Failing to continue liberalization has reduced the attractiveness of the Indian economy. Foreign direct investment dropped by nearly a third last year even as portfolio capital investment rose. (The PRC drew four times as much of the former.) Fund managers have become less optimistic about the Indian economy. Reported Dhume, “In January, foreign institutional investors, driven in part by high inflation and the sluggish pace of economic reforms, pulled \$900 million out of India’s stock markets.”

Yet economic growth is still expected to hit 8.5 percent or even nine percent this year, while Chinese officials have reduced their predictions for the PRC to seven percent. If New Delhi systematically reformed its policies, India could consistently outgrow and eventually overtake China.

The entrepreneurial potential of the Indian people is evident on the streets of New Delhi. Activity is frenetic, but often primitive. Outside of my Western-standard hotel the sidewalks were dirt and an open fire blazed. Tiny three-wheel “auto rickshaws” fill the streets. Riders packed into and onto small vans. Bicyclists pulled carts with goods piled to twice the riders’ heights. The only constant was the sound of auto horns, as if drivers thought the noise would clear a path through the gaggle of constantly maneuvering vehicles.

Some Indians are actively pushing for a more open economy. For instance, the Centre for Civil Society, headed by Parth Shah, helped organize a recent international conference of the Mont Pelerin Society in New Delhi. The CCS works for a freer Indian economy and society. One of its most important initiatives is an educational voucher program that empowers poor parents to provide a good education for their children.

India’s widely dispersed Diaspora — apparently the world’s largest after Mexico — also could help spur future economic growth. Ethnic Indians have demonstrated their entrepreneurship around the globe, including in America. A more prosperous India already has begun to draw its sons and daughters back home. More reform would encourage more investment and trade from emigrants.

A wealthier India obviously would benefit its people. A stronger India also would enhance a regional balance of power in Asia.

New Delhi's relationship with China long has been difficult. Indeed, in 1962 India lost a bitter border war with the communist giant. Today New Delhi is playing a more active geopolitical role and consciously balancing against the PRC.

For instance, India has initiated a "Look East" policy, which includes improved relations with several Southeast Asian nations, including Indonesia, Malaysia, and Vietnam. Six years ago New Delhi signed a strategic partnership agreement with the first, the globe's most populous Muslim state and an emerging power in Southeast Asia. In January India added investment and trade accords with Jakarta.

India has inked a free trade agreement with ASEAN and is discussing widening the pact to investment and services. New Delhi also has negotiated a free trade agreement with Japan. Moreover, India is active in Burma, heretofore almost a satellite of China.

Equally important, New Delhi is playing a more active military role, increasing outlays and participating in naval maneuvers with Japanese and Vietnamese forces. India has developed an expanding nuclear arsenal and possesses an aircraft carrier, a weapon currently absent from China's arsenal.

The U.S. and New Delhi have improved their relationship. President George W. Bush deserves much of the credit, reversing the Clinton administration's counterproductive attempt to isolate India after the latter developed nuclear weapons. The Bush administration inked an agreement accepting New Delhi's new status while bringing its nuclear activities under greater international scrutiny. The Obama administration has continued this approach. Joint naval exercises (including Japan) are scheduled for next month.

A formal alliance is not in America's interest and Indian officials won't act as Washington's tool to contain the PRC. However, both nations have an incentive to cooperate in constraining China's potentially aggressive tendencies. Deepak Lal argued: "It is in India's long term interest to recognize that the continuance of its liberal democratic open economy also requires it to support and, if necessary, take over the imperial burden from the U.S."

Washington's best strategy would be to act as an off-shore balancer, ready to aid friendly states if necessary, but leaving most disputes to the latter. The rise of India makes such an approach much easier. The Asian nations increasingly are able to provide for their own security.

China is rising. But so is India. Sadanand Dhume pointed out that the latter has "core strengths — competitive private companies, a vast cohort of competent engineers and managers, a growing middle class and the cushion of long-term stability provided by democracy." However, New Delhi needs to recommit itself to economic reform for its people to fulfill their enormous potential.

If India does so, it will share in the leadership of the 21st century. And the world will likely be freer and more prosperous as a result.

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